

Paid Fantasy Sports Overview

Indiana Gaming Commission
May 19, 2016 Business Meeting

What are Fantasy Sports?

- Contestants assemble or “draft” teams of real-life athletes to compete in challenges against other contestants.
- Traditional fantasy sports leagues operate on a season-long basis where contestants choose a team and compete with that team throughout a “season.”
- Daily fantasy sports is a relatively new phenomenon and allows contestants to participate in new games and choose new lineups/teams over a much shorter time period.
- Fantasy sports contests requiring a paid entry fee are now regulated pursuant to SEA 339.

How Does a Typical Fantasy Sports Contest Work?

- A fantasy team is created using a predetermined number of players “drafted” by a contestant.
- A typical fantasy football lineup is shown below:

QB — Aaron Rodgers, GB

RB1 — Jamaal Charles, KC

RB2 — Adrian Peterson, MIN

WR1 — Antonio Brown, PIT

WR2 — Julio Jones, ATL

TE — Rob Gronkowski, NE

K — Adam Vinatieri, IND

Defense/Special Teams - DEN

- Contests are scored based on the real-life statistical achievements of the players in the contestant’s lineup.
- Typical point values are shown below:

Touchdown — 6 points

10 Rushing Yards — 1 point

20 Passing Yards — 1 point

Field Goal — 3 points

Fumble — -2 points

Interception — -2 points

Defensive Interception — 2 points

Defensive Fumble Recovery — 2 points

Daily Fantasy Sports

- Daily fantasy sports refers to multiple contests taking place on an accelerated basis over a short period of time such as a single week or single day of competition.
- Most daily fantasy sports operators allow contestants to enter multiple contests at a time.
- Currently there are a number of daily fantasy sports operators, but the two major industry leaders are Draft Kings and FanDuel.
- According to data collected by research firm Eilers & Krejcik Gaming, LLC, Draft Kings and FanDuel hold about 90% of the daily fantasy market share.



Who Participates in Fantasy Sports?

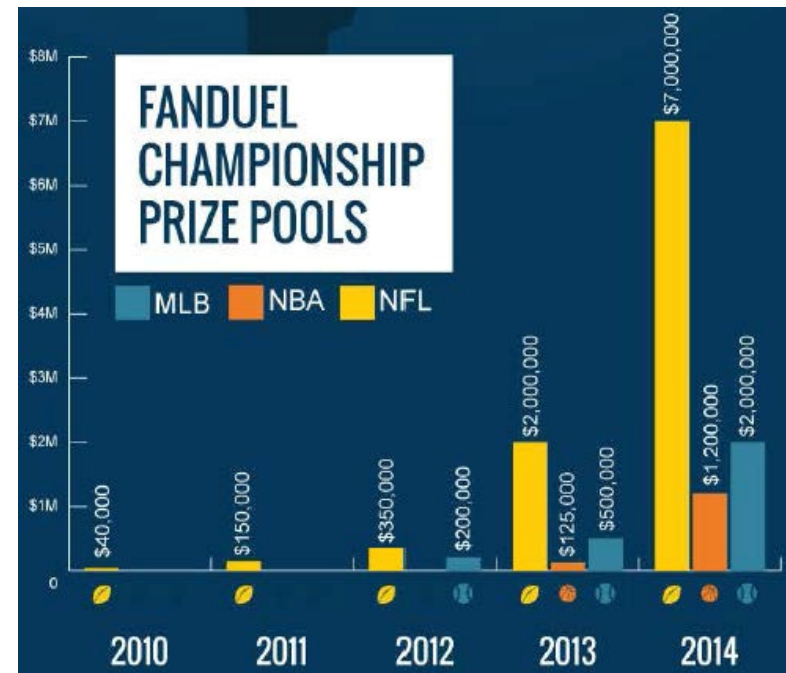
- In 1988, the Fantasy Sports Trade Association (FSTA) estimated that there were about 500,000 people playing fantasy sports in the United States and Canada. By 2015, FSTA estimated that roughly 58.6 million people were playing in the United States and Canada.
- Current FSTA data on fantasy sports demographics is shown below:
 - 66% Male / 34% Female
 - Average Age: 37
 - College Degree or More: 57%
 - Full-Time Employment: 66%
 - Favorite Fantasy Sport: Football (73%)
 - Average Time Spent on Fantasy Sports per Week: 3 hours

Money Spent on Fantasy Sports Contests

- Roughly 60% of fantasy sports contestants pay some sort of entry or league fee to play.
- Daily fantasy spending by average contestants began to rise after the launch of FanDuel in 2009 and DraftKings in 2012. In 2015, the two companies spent a combined \$206 million on advertising.
- In 2012, the average fantasy sports contestant spent about \$80 per year on a combination of season-long and daily fantasy sports contests and fantasy sports related materials (i.e. lineup guides).
- In 2015, spending of the average fantasy sports contestant had risen to roughly \$465 per year. A huge increase in just over three years with the largest increase coming in spending on daily fantasy sports contests (\$5 in 2012 to \$257 in 2015).

The Growth of Daily Fantasy Sports

- According to data collected by research firm Eilers & Krejcik Gaming, LLC, the following information shows the current market for paid daily fantasy contests.
 - 3.8 million unique contestants playing daily fantasy sports.
 - Roughly \$2.8 billion in total contest entries.
 - \$252 million in industry-wide revenue.
 - 93% of daily fantasy sports activity occurs in the United States but interest in Europe is rapidly increasing.
 - Rotogrinders.com, a website dedicated to fantasy lineup analysis and predictions, presented the graphs below showing that daily fantasy prize pools have risen sharply in the last few years.



Daily Fantasy Sports Marketing and Advertising

- NBA, NHL, and MLB each have league-level equity deals with FanDuel (NBA) and DraftKings (NHL and MLB). While the NFL does not have a league-level equity deal, 28 of 32 NFL franchises have sponsorship or advertising deals with either FanDuel or DraftKings.
- 17 pro sports arenas currently have branded fantasy lounges. The lounges are intended to provide enhanced game day experiences to DraftKings and FanDuel users. For instance, AT&T Stadium, home of the Dallas Cowboys, opened its DraftKings lounge inside the gateway that the opposing team takes from the field to the locker room, allowing fans to cheer and high-five players as they enter and exit the field.

Data collected by research firm Eilers & Krejcik Gaming, LLC

Senate Enrolled Act 339

- With the passage of Senate Enrolled Act 339, the legislature provides basic consumer protections and creates a lawful and secure environment for Hoosiers to play paid fantasy sports.
- Indiana is just the second state to pass legislation officially recognizing paid fantasy sports as a legal activity, and the first state to approve rulemaking authority.
- Additionally, SEA 339 clarifies that paid fantasy sports contests are not considered gambling and are exempt from the Indiana criminal code.

Role of the Indiana Gaming Commission

- Prior to the introduction of SEA 339, the paid fantasy sports industry was unregulated.
- Based on the language of the statute, SEA 339 is a consumer protection bill. The IGC has been tasked with creating regulation and licensing procedures to implement the consumer protections created in the bill.
- SEA 339 does not authorize the IGC to exert the same regulatory authority used to regulate casinos, so there will be significant differences between the traditional casino regulatory structure and the regulatory structure imposed upon paid fantasy sports.

Consumer Protections

- Below are some examples of consumer protection measures created in SEA 339:
 - Prohibits contests involving college or amateur athletes.
 - Prohibits participation by contestants under 18 years of age.
 - Segregates contestant funds from operator funds.
 - Prohibits participation by daily fantasy sports operator employees.
 - Prohibits advertising in schools/venues specifically used for elementary or high school activities.
 - Requires operators to create/maintain a voluntary exclusion list.

What is a Paid Fantasy Sports Operator in Indiana?

- An operator, as defined by SEA 339, is a person engaged in the business of professionally conducting paid fantasy sports games for cash prizes for members of the general public;
AND
- Requires cash or cash equivalent as an entry fee to be paid by a member of the general public who participates in the fantasy sports game.
- Operators may conduct any paid fantasy sports contests that fit the definition provided in SEA 339.

Operator Licenses

- The IGC is currently developing a licensing and regulatory framework by which operators will obtain a license and legally operate within Indiana.
- SEA 339 requires a one-time entry fee of \$50,000 as part of the initial application and a subsequent \$5,000 fee to renew the license annually.

Where Can Paid Fantasy Sports Be Played?

- Under SEA 339 a paid fantasy operator may:
 1. Conduct one or more paid fantasy sports games through an internet website maintained and operated by the game operator; or
 2. Contract with a licensee to conduct one or more paid fantasy sports games on the premises of a licensed facility.

Paid Fantasy Sports Division

- SEA 339 established a new division within the IGC known as the paid fantasy sports division.
- The paid fantasy sports division is responsible for the following:
 - (1) Administering licensing procedure;
 - (2) Imposing penalties for non-criminal violations of SEA 339; and
 - (3) Prevention of actions detrimental to the public good and the integrity of paid fantasy sports contests.
- Staffing needs for the paid fantasy sports division will be determined once the IGC determines how many operators will seek Indiana licensure.

Regulatory Objectives

- With paid fantasy sports (specifically, daily fantasy sports) being a new and developing industry, IGC will be continuously working to effectively regulate while not stifling innovation and growth of the industry.
- Frequent improvements in technology and industry practices will require quick and flexible response by the paid fantasy sports division and the IGC as a whole. Daily fantasy sports will continue to evolve as states, professional teams, and professional leagues all continue to shape the industry.
- IGC will also continue to monitor possible federal involvement in industry regulation.
- IGC's regulatory objectives include creation of a regulatory environment appropriate for a highly technical, innovation-driven industry and engaging the most current and reliable technology.

Proposed Timeline for Implementation

- July 1 – IGC staff begins formal rulemaking promulgation process.
- August 1 – Non-binding Letter of Intent to Operate in Indiana due to IGC.
- September 8 (IGC Business Meeting) – Emergency rules proposed.
- November 1 – Operator applications due.
- November 17 (IGC Business Meeting) – Official action regarding operators that failed to file an application.
- March 2017 – Official action on operator applications and proposed final rules.